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IMPROVING FARMERS' INCOME THROUGH COOPERATIVE BARGAINING

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Farmer Cooperative Service,
U. S. Department of Agriculture

FARMER COOPERATIVE SERVICE
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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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by Wendell M. McMillan

Marketing Division

Growth and development of cooperative bargaining is one of the more interesting -- and perhaps significant -- trends in cooperative marketing today.

Many farmers, as well as a growing number of agricultural leaders, are more and more examining the potential role of cooperative bargaining associations and their possible influence on farmers' income.

The growth in number of bargaining associations, the increasing number of conferences and seminars that examine the role of bargaining cooperatives, the growing number of studies and reports, and the activities of general farm organizations in this area all point to the interest in cooperative bargaining.

Cooperative Bargaining Defined

Before examining some of the possibilities these associations hold for improving farmers' income, we should

first point out what we mean by cooperative bargaining, especially as it relates to the popular term, bargaining power.

Bargaining power, or market power, is a general term referring to ability to influence the outcome of the price-making process. To have bargaining power means that a firm or group of firms can affect the various economic and institutional factors in the market so that they can bring about prices or other terms of trade more favorable to them than those prevailing or that would prevail otherwise. Not to have bargaining power means to be a price taker rather than a price maker.

Now a basic reason why farmers form bargaining cooperatives is to achieve bargaining power. Growers because of the small size of their individual farms, look to cooperatives to influence price and other terms of trade so that their income as grower-members will be enhanced. This they hope to accomplish by forming a cooperative. Through it they can then negotiate as a group, rather than as individual growers, for the price and other contract terms involved in the sale of their crops to processors.

Methods of Obtaining Power

Bargaining cooperatives are only one way of achieving bargaining power. Other methods include marketing and purchasing cooperatives, marketing

agreements and orders, and marketing quotas.

In addition to approaches using voluntary cooperative efforts among growers and to those using various Government programs, individual growers can also enhance their bargaining positions in other ways. For example, they can increase the scale of their operations, produce the quality and type of product most needed by buyers, differentiate products and services, and become better informed about marketing conditions and procedures.

While they have the word bargaining attached to their name, these cooperatives do not provide the only way, nor a magical, painless way to bargaining power.

Cooperative bargaining provides a tool -- if used skillfully by growers in certain market situations -- that can enhance their incomes. But, just as we cannot use a crowbar to repair a wrist watch, we cannot use a bargaining cooperative to solve all marketing problems.

Growth of Bargaining Cooperatives

Though there is presently a considerable -- and growing -- interest in cooperatives of the bargaining type, this form of cooperation is not really something new. Dairy farmers, for

example, have used bargaining cooperatives for many years.

Bargaining cooperatives are also used by a variety of other producer groups, as indicated in the following brief listing. Besides the more than 200 dairy bargaining associations operating today, there are nearly 50 sugar beet bargaining associations and about 30 egg bargaining associations.

However, the most dramatic growth of bargaining cooperatives is currently in the processed fruit and vegetable industry. While 2 of the pioneer associations date back more than 40 years in California and Utah, most of the approximately 40 fruit and vegetable bargaining cooperatives were organized within the past 10 years.

Also, the American Agricultural Marketing Association has affiliated organizations in at least 21 States. These State affiliates of AAMA help organize and assist fruit and vegetable growers in their bargaining activities. In some places bargaining cooperatives have become a part of the AAMA affiliate.

Thus, there is some duplication in the above figures. In addition, while formally organized on paper, not all bargaining associations currently negotiate on an active basis with processors. On the other hand, other groups of growers are examining the feasibility of cooperative bargaining to market their crops, including for example, marketing pulpwood to paper mills.

There are also about 25 groups of producers that bargain with suppliers for the purchase of feed ingredients, or for the manufacturing or custom mixing of feed.

In addition, the collective bargaining efforts of the National Farmers Organization, in contrast to the preceding associations, place great reliance on withholding products to achieve bargaining power.

Fruit and Vegetable Bargaining Cooperatives

Because of the current interest among growers in the processed fruit and vegetable industry, most of this discussion will refer to bargaining cooperatives in this industry. These comments have some general application to dairy and other bargaining cooperatives, but no effort is made to discuss the detailed connections between these cooperatives and the various Federal and State milk marketing orders.

Objectives

Many growers, when seeking to strengthen their competitive position by marketing their crops jointly with other growers, have chosen to use the processing or operating types of cooperatives. These physically handle the crops and perform various marketing functions through perhaps several stages in the marketing channels.

. Because of characteristics of the commodity and the market situation, bargaining cooperatives concentrate on negotiating for the price and other terms of trade involved in the sale of their raw product to processors. While stated in various ways, the objective is to obtain through cooperative bargaining the highest return consistent with current and prospective economic conditions and the long-run welfare of the grower-members.

Much of the interest in bargaining cooperatives can be traced to the impact on farmers' competitive position and income caused by the changes taking place in the structure and behavior of various markets. Many growers find themselves in a relatively weak competitive position as they are faced with the increasing "bigness" and "fewness" of buyers, the expanding use of contracts, and the increasing use of specification and direct buying.

Thus, cooperative bargaining -- as well as other approaches to market power -- finds receptive audiences, and will continue to find receptive audiences, as market structure trends continue and intensify.

Legal Aspects

Just as various economic forces have influenced the development of bargaining cooperatives, so too has the legal environment been important, not only to their existence as economic organizations but also to the legality

of their operations -- which are directed towards influencing price through joint action. Thus any consideration of the market power potentials of bargaining cooperatives must consider legal, as well as economic, constraints.

Until enactment of the Capper-Volstead Act in 1922 and of laws in every State providing for organizing farmer cooperatives, such cooperatives frequently encountered restraint of trade or other antitrust problems, even in their organizational phases.

At the Federal level, the Capper-Volstead Act has made it clear that elimination of competition between individual producers, which occurs when they act together through a cooperative, would not in and of itself constitute a Federal antitrust law violation. State statutes now give similar assurance with respect to State antitrust or restraint of trade laws.

It also seems reasonably clear that bargaining cooperatives organized in compliance with the Capper-Volstead Act can legally attain a strong position in a particular area or product so long as they achieve this position by voluntary attraction of membership and voluntary growth. They may use this position to enhance price.

However, on the other side of the coin, a Capper-Volstead cooperative cannot "unduly enhance" price. In addition, it cannot operate with any immunity from the restraints of the

- Sherman Antitrust Act or the prohibitions of the laws administered by the Federal Trade Commission.

Organizational Structure

The organizational structure of bargaining associations is similar to that of other cooperatives. Growers need to organize their associations so they can guide and control them in line with the objectives they were formed to accomplish.

This is done by incorporating under the cooperative Acts of their States, and by setting up bylaws stating the objectives and operating framework of their associations.

In addition to bylaws, these cooperatives nearly always have membership agreements. These agreements, or contracts, state in writing the rights and duties of both members and associations relating to members' crops marketed through their cooperatives.

The agreements are generally of the agency type -- that is, the association becomes the agent for the grower in selling his crops. And the agreements all require members to market through their cooperatives all the crops they produce for processing that are bargained for by their associations.

In such cooperatives, an elected board of directors, operating within the framework of bylaws, establishes policies and procedures needed to carry out the objectives of the organizations.

Directors play an important role in the negotiating functions, and these boards are relatively large.

A manager, employed by the board, conducts the daily affairs of each association. However, because such associations do not physically handle or process members' crop, the number of employees is generally small, and most of these are fieldmen.

Membership is voluntary in a bargaining cooperative, and a common requirement for membership is that members be bona fide agricultural producers. And, of course, these associations seek to increase membership in order to represent as large a share of the crop as possible. Nearly all of the associations negotiate only for a single commodity.

Capital requirements of bargaining associations are relatively small, since the chief need is for operating expenses. The most important sources of funds are deductions or retains from proceeds members receive for their crops. Processors make the deductions from each grower's payment check and then forward the accumulated deductions to the association. Several associations also obtain funds from a processor service charge. Since the associations operate on a cost basis, any funds in excess of the expenses belong to members in proportion to their patronage in the association.

Operations

Now, let's look at their operations -- that is, how they perform the basic service of negotiating for contract prices and other terms involved in selling members' crops to processors. Before negotiations can actually take place on the various contract provisions, it is first necessary for an association to be recognized by the processor as the sole bargaining agent (or exclusive sales agent) of its members.

Recognition generally involves testing the basic question of whether or not the association has sufficient tonnage signed up to be of importance to the processor. If the processor cannot obtain enough raw products from nonmembers or from its own production, recognition is usually forthcoming. On the other hand, if the tonnage signed up is not sufficient, or if the association is not stable enough to maintain its membership, recognition often is not achieved.

Preparations by the bargaining associations for their negotiations involve various meetings of members, directors, and bargaining committees before planting time for the vegetable associations or harvest time for the fruit associations. Basic to these meetings -- and to the results of the negotiations -- is the economic and marketing information the associations have available.

As their representatives in the negotiating sessions, the vegetable as-

sociations generally have several bargaining committees, each committee assigned to negotiate with a separate processor. For the fruit associations, the individual association's board, or a committee of the board plus the manager conduct the negotiations with each processor.

With vegetable associations, negotiations revolve around terms contained in the contracts used by processors in buying growers' raw products. When the association and the processor reach agreement on the contract's terms, the association then "approves" each of the processor's contracts by placing the stamp of the association and the signature of the president on each contract. Members, who are bound by the membership agreement not to sign any but "approved" contracts, then individually sign these processor contracts.

The fruit associations, in performing their function as exclusive sales agents for the members, generally use contracts of sale signed by each association for its members, and each processor.

Some of the west coast associations use a contract with unique features. It is an enforceable contract to sell fruit in advance of the harvest, although no price is specified in it. Instead of a specific price, the contract states that the buyer must pay a "reasonable price." Other provisions in the contract gives the methods for determining the reasonable price.

Effect of Bargaining Cooperatives on Farmers' Income

What are some of the possibilities that cooperative bargaining holds for improving farmers' income?

Of course, many factors have a bearing on farmers' income, and to sort out of this complex situation the impact of a specific structural change such as the formation of a bargaining association is extremely difficult at best.

Problems of measuring performance here involve not only price but also many non-price terms of sale that have direct and indirect effects on farmers' income.

And, besides the economic factors, there are legal considerations and there are complexities of human relations, both among the growers themselves and between the growers and the processors. There is also the intangible of management skill in devising and using various negotiating strategies.

Economic Environment

In assessing the possibilities of cooperative bargaining, we can first look at the economic environments in which these associations might operate. If the market structure is one that can be described by the term perfect competition, then the potentials are quite

different from structures characterized by various types of imperfect competition. If the structure were perfectly competitive, a situation never actually attained, then there would be no economic possibilities or need for cooperative bargaining -- or any of the other approaches to bargaining power.

However, imperfect competition in varying degrees is characteristic of most markets and there are many complex steps involved in the performance of the various marketing functions. Thus bargaining cooperatives have opportunities in varying degrees to modify the structure and behavior of certain markets to the benefit of their grower-members.

But the extent to which growers can use these opportunities to enhance their incomes depends basically on the degree of their control over the supply of the commodity and on how skillfully they use this control.

With a certain crop in a given market situation that is imperfectly competitive, combining products of many sellers into the hands of one, or a few, sellers can bring about changes in market structure and behavior favorable to farmers' income.

The actual act of forming such an association, or the possibility of forming such an association, often brings improved marketing conditions and sometimes improved prices. But of course, such changes are only temporary, and often a result of buyers'

strategy to forestall further organization of growers.

If the association has a moderate amount of control over the crop, certain changes in some of the non-price areas can often be achieved, especially if these changes bring about mutual advantages to growers and processors.

With a high degree of control over a very substantial proportion of a crop in a given situation, the bargaining association can have the market power to influence price and other terms of trade it would not otherwise have.

But -- and this is of major importance -- this bargaining power, whether achieved through voluntary attraction of membership or in conjunction with a market order with volume controls, can be used only within the constraints of the legal environment and within the constraints of the overall supply and demand situation.

We previously pointed out that cooperatives are not immune from anti-trust legislation. In addition, to attempt in a given area to price the product above the level dictated by basic supply and demand conditions will lead to increased supplies from other production areas.

If there are ways to segment the market to prevent supplies coming in from other areas, then the crop can become overpriced in relation to other competing products. The consumer

will then substitute the relatively lower-priced product for the higher-priced one.

In addition to the influences of interregional competition and substitutability of products, control of supply also has a time dimension. Improved returns will, in time, bring forth additional production, both from the association's members and from other farmers who will begin producing this crop. Also, short-run withholding of products -- while dramatic and perhaps strategic in achieving certain objectives -- cannot achieve the market power of long-run control of supply.

In sum, bargaining cooperatives -- as well as other types of businesses -- must operate within the constraints of legal conditions and of basic supply and demand situations. Thus their actual influence on prices is often neither as great nor as lasting as growers would desire.

Benefits to Growers

While growers cannot expect to bypass basic economic conditions with cooperative bargaining, in many areas these associations can provide substantial economic benefits to growers.

By reducing the number of sellers, by providing products and services that distinguish them favorably from others, by having some control over the amount or flow of product going to various outlets, by providing a focal point for growers that is recognized by other

segments of the industry, and in other ways, cooperative bargaining can be a tool that permits growers to exploit specific conditions in certain imperfectly competitive market situations.

These associations can have a favorable impact on farmers' income, not only through price but also through various marketing specifications and procedures which also affect income. Such include, for example, time and method of payment, grading standards and methods, availability of boxes and pallets, delivery schedules, and non-performance procedures. While attention of growers tends to center on price, these non-price terms can have a significant influence on growers' returns.

Bargaining cooperatives can also aid considerably as a mechanism for price discovery. Many growers lack knowledge on factors affecting prices and thus on what prices are economically realistic. A bargaining cooperative can collect, analyze, and disseminate this information to growers, as well as to the industry. In certain crops price is set only once a year, or the number of buyers is small and thus not many actual sales take place. Here bargaining cooperatives can provide comprehensive price analyses that will help all segments of the industry seek out or discover prices justified by prevailing economic conditions.

Cooperative bargaining can enhance growers' incomes. However, we must continue to keep in mind the importance

of substantial control of product, skillful management, and informed membership; and that these objectives can be achieved in varying degree in differing market situations.

Cooperative bargaining can lead to increased stability of prices over time and among buyers. By negotiating a price which becomes a base price for the market, all processors will know they have the same raw product price. Their interest or preoccupation with the price level is often then less intense. A device often used to keep prices uniform among buyers is a contract provision between the association and the processor. This provides that if the association sells at a lower price to other buyers, the lower price must also apply to the earlier purchases, and if buyers pay a higher price at a later date, the higher price must also be paid the association.

The bargaining association can also help reduce discrimination among growers through development and use of uniform contracts. Such contracts make comparison much easier and their uniformity can also simplify the negotiating procedures between association and processor.

Besides disseminating information to members and the industry on economic and marketing aspects, these associations can also provide advisory information and services on production and harvesting, thus helping members operate more efficiently and at lower cost.

Many individual growers working together with common objectives through a bargaining association provide a tool for more effective participation with other segments of an industry.

For example, organized growers can more effectively assist such programs as those directed at improvement of product quality and at market development and expansion. Organized growers can also encourage increased efficiencies, not only at the grower level, but also at other levels in the marketing channels. And, of course, cooperatives play an important role in establishing and operating marketing agreement and order programs.

Also, bargaining cooperatives can provide a steppingstone to other types of cooperative activity, such as growers' entry into processing or other phases involved in the marketing of their crops.

Summary

In summary, trends in market structure have been increasing growers' interest in various ways to strengthen their market power. Cooperative bargaining is one approach that attracts considerable attention. And prospective trends in the future suggest that the interest by individual growers in joint or cooperative efforts will intensify.

The bargaining cooperative can improve growers' incomes in certain market situations. While the gains can seldom be spectacular, they can be substantial, both through direct influence on price and on the many nonprice aspects or terms of trade which also affect incomes directly or indirectly.

Substantial control of a commodity in certain market situations, well analyzed economic data on basic supply and demand conditions, skillful management, and well informed member-growers will all increase the possibilities of improving farmers' income through cooperative bargaining.

Other Publications Available

Using Your Fruit and Vegetable Co-op.
Educational Circular 7.

Fruit and Vegetable Bargaining Cooperatives. Circular 25, Wendell M. McMillan.

Some Facts About Fruit and Vegetable Bargaining Co-ops. Information 11, Wendell M. McMillan.

Proceedings of the National Conferences on Fruit and Vegetable Bargaining Cooperatives.

List of Publications, FCS. Information 4.

A copy of these publications may be obtained upon request while a supply is available from --

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